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SUBJECT: UGANDA: PARLIAMENT INVESTIGATES AGOA ISSUES

REF: KAMPALA 0039

¶1. (SBU) SUMMARY: Parliament's Committee on Finance, Planning, and Economic Development met October 18 to begin an inquiry into the status of companies exporting under the Africa Growth and Opportunity Act (AGOA) and the implications of renewing production at Tri-Star Apparels. The inquiry comes on the heels of the Auditor General's report that identified the failure of government-subsidized Tri-Star exporting under AGOA. The Ugandan Government requested that Parliament write off Tri-Star's debt and infuse government money into another company, Phenix Logistics. Questions about payment and tax breaks for U.S. lobbyists to promote AGOA also are under investigation. END SUMMARY.

¶2. (SBU) Parliament's Committee on Finance, Planning, and Economic Development launched an investigation into the demise of Tri-Star Apparels, a heavily subsidized company exporting under the Africa Growth and Opportunities Act (AGOA). Earlier in the year, Libyan Africa Portfolio Textiles (LAP) acquired 60 percent of Tri-Star, after the Ugandan government pumped USD 11 million into the failing company (reftel). The influx of funds looked like a promising short-term fix, but over the long-term the picture looks grim, according to Hassim Wasswa, an economist at the Ugandan Export Led Growth Strategy and AGOA Country Response Office.

¶3. (SBU) In a meeting with Econoff on October 30, Wasswa argued that LAP would do little if anything for Tri-Star. He stated that the GOU met jointly with LAP and Managing Director of Tri-Star, Veluppillai Kananthan. Wasswa described the meetings as lackluster and that neither party was willing to take an active stance in reviving Tri-Star. He suggested that this might be the result of both parties reevaluating the factors which limit profitability, such as high transportation costs from land-locked Uganda. Wasswa said that although the President may not continue subsidizing Tri-Star, he wanted to pump money into the textile industry.

¶4. (SBU) The Parliamentary committee was specifically interested in examining Tri-star's financing. Moreover, it will interview Tri-Star's management, including Gerald Ssendawula, the former Minister of Finance, Planning, and Economic Development, and other officials from the ministries of finance, tourism, agriculture, and internal affairs, and the Bank of Uganda (the Central Bank). The committee established a 45-day timeframe for the investigation.

¶5. (SBU) The Auditor General's report released on October 16, found that the Bank of Uganda gave out bad loans worth USD 941,000 to four companies including Tri-Star. The GOU had guaranteed a loan of USD 5 million, with an additional guarantee of USD 7.5 million from the Bank of Uganda. In 2003, the GOU guaranteed the company, USD 3.5 million with a USD 4 million Bank of Uganda guarantee. In September 2007, President Museveni directed USD 3 million be given to Phenix Logistics to boost Uganda's exports to AGOA markets. Parliament's public accounts committee wrote a letter to the Treasury Secretary protesting the planned write-offs for Tri-Star and Phenix Logistics. Committee Chairman, Naadala Mafabi, told a press conference that, "officials in the Ministry of Finance should be ashamed. We are

talking about half our national budget illegally given to individuals and now they want to write off this money. The taxpayers' money must be recovered as a matter of urgency."

¶ 6. (SBU) Parliament also investigated another government subsidy for Phenix Logistics, which exported USD 50,000 in organic cotton T-shirts to the U.S. earlier this year. Mike Mukula, the National Resistance Movement's (NRM) eastern party chairman and several ruling party members of Parliament (MPs), reported that the President "strong-armed" the party's MPs into approving a USD 5 million subsidy for Phenix Logistics during a ruling party caucus meeting on September 23. Rebel parliamentarian, Henry Banyenzaki, complained to the press.

¶ 7. (SBU) In addition, the committee is looking into the role of the Whitaker Group, a U.S. lobby firm which the GOU granted tax-free status on a USD 1 million per year contract. Elijah Okupa, one of the committee members, told P/E chief on October 15 that negative press reports about governmental tax breaks offered to the Whitaker Group to promote AGOA were being investigated. Furthermore, the services the Whitaker Group has provided would be examined in relation to its USD 1 million contract.

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OTHER AGOA MATTERS
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¶ 8. (SBU) Officials of Dunavant Cotton, a USAID implementing partner in northern Uganda, report that an arrangement has been reached with the Government regarding areas where competing cotton companies can invest. The Government, which supports Bowevil, another cotton investor, told Dunavant that Bowevil will have exclusive buying rights in Lira District to supply cotton to Phenix Logistics. Dunavant was told it could buy from Acholiland.

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COMMENT
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¶ 9. (SBU) President Museveni's commitment to AGOA is unwavering. Parliamentarians are not anti-AGOA, but instead disagree with government subsidies being used to prop up non-viable businesses or support expensive lobbyists at taxpayers' expense. Parliament wants to better understand Uganda's returns on its investment in AGOA companies.

CHRITTON